

## Message Text

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70/71

ACTION ARA-20

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 IO-14 H-03 L-03 DODE-00 PA-04 USIA-15 PRS-01

DRC-01 /186 W

----- 033064

R 231928Z MAY 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 3422

INFO AMEMBASSY TAIPEI

AMEMBASSY MEXICO

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 3661

C O R R E C T E D C O P Y (TAGS)

E.O. 11652: N/A

TAGS: EIND, BR

SUBJECT: NEW RCA CONSUMER ELECTRONICS PROJECT

1. BEGIN SUMMARY: RCA OFFICIALS ON MAY 16, 1974 SIGNED AN AGREEMENT WITH THE GOB UNDER WHICH RCA WILL RECEIVE SPECIFIC FISCAL BENEFITS FROM THE GOB IN EXCHANGE FOR A COMMITMENT TO EXPORT 400 MILLION DOLLARS WORTH OF ELECTRONIC COMPONENTS OVER THE NEXT TEN YEARS FROM A NEW FACILITY RCA IS BUILDING IN BRAZIL. THIS PROJECT REPRESENTS A NEW MAJOR INVESTMENT BY A US FIRM AND IS ALSO A CLEAR EXAMPLE OF HOW THE GOB INCENTIVE PROGRAMS ASSIST FOREIGN INVESTORS. END SUMMARY.

2. RCA REPRESENTATIVES CALLED ON ECONOMIC AND COMMERCIAL COUNSELOR AND PROVIDED FOLLOWING BACKGROUND ON NEW RCA  
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PROJECT IN BRAZIL. RCA HAS BEEN ACTIVE IN BRAZIL FOR ABOUT

50 YEARS BUT NOT IN THE CONSUMER ELECTRONICS AREA. RCA IS CURRENTLY UNDERTAKING A NEW PROJECT TO PENETRATE BRAZIL'S GROWING COLOR TELEVISION MARKET. RCA PROJECT IS A TWO PHASE OPERATION:

FIRST, THE CONSTRUCTION OF A FACILITY IN RIO DE JANEIRO TO PRODUCE COMPONENTS FOR, AS WELL AS, COMPLETE COLOR TELEVISION SETS: SECOND, WILL BE THE DEVELOPMENT OF A "SOLID STATE" DIVISION TO SUPPLY COMPONENTS TO RCA BRAZIL, AS WELL AS EXPORT MARKET PARTICULARLY LAFTA. TO RECEIVE SPECIAL GOVERNMENT BENEFITS, RCA HAS, MAY 16, SIGNED AN AGREEMENT WITH BEFIEK (COMMISSION FOR THE CONCESSION OF FISCAL BENEFITS TO SPECIAL EXPORT PROGRAMS, AN AGENCY CURRENTLY UNDER THE FINANCE MINISTRY THAT GRANTS TO EXPORTING FIRMS EXEMPTION FROM BRAZILIAN IMPORT TAXES AND THE TAX ON INDUSTRIALIZED PRODUCTS (IPI): THE VALUE OF THESE TAX EXEMPTIONS CANNOT EXCEED ONE THIRD OF THE NET VALUE OF THE AVERAGE ANNUAL EXPORTS OF THE FIRM). UNDER THIS RCA-GOB BEFIEK AGREEMENT, RCA HAS AGREED TO EXPORT, OVER THE NEXT TEN YEARS, 400 MILLION DOLLARS WORTH OF ELECTRONIC GOODS FROM ITS NEW FACILITY IN RIO. RCA REPRESENTATIVES INDICATED THAT EXPORTS WILL REPRESENT 50 PERCENT OF THE FACILITY'S OUTPUT OVER THE TEN YEAR PERIOD, AND WILL CONSIST OF COMPLETED SETS TO THIRD COUNTRIES AND COMPONENTS BACK TO RCA IN THE US FOR US PRODUCTION. US WILL ACCOUNT FOR 80 PERCENT OF THESE FOREIGN SALES.

3. BEFIEK BENEFITS WILL ASSIST RCA IN PENETRATING DOMESTIC MARKET BY PROVIDING IPI EXEMPTIONS AND WILL PROVIDE RCA WITH ASSISTANCE IN OBTAINING NEEDED IMPORTS. DURING FIRST TWO YEARS OF OPERATION, REPRESENTATIVES INDICATED THAT 75 PERCENT OF THE MATERIALS USED IN PRODUCTION WILL BE IMPORTED WITH 70 TO 80 PERCENT OF THE IMPORTED MATERIALS COMING FROM THE US. REPRESENTATIVES ALSO INDICATED THAT TOTAL CAPITAL REQUIRED FOR PROJECT WAS 27 MILLION DOLLARS, OF WHICH 15 MILLION WILL BE RCA EQUITY INVESTMENT. IT IS ALSO CONTEMPLATED THAT EQUIPMENT COSTS FOR PROJECT WILL BE 7 MILLION, OF WHICH 5 MILLION WILL BE IMPORTED: SOURCE OF VIRTUALLY ALL EQUIPMENT WILL BE THE US.

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RM RCA OFFICIALS ALSO PROVIDED FOLLOWING DATA ON EMPLOYMENT EFFECTS OF PROJECT. RCA BRAZIL PRESENTLY EMPLOYS 2,200 INDIVIDUALS: FIRST PHASE OF PROJECT WILL INCREASE THIS EMPLOYMENT BY 2,000 TO 3,000 PEOPLE: SECOND PHASE WILL ADD AN ADDITIONAL 750 TO 1,000 EMPLOYEES.

5. NEW PRODUCTION IN BRAZIL WILL SHIFT PRODUCTION OF COLOR SETS FROM RCA'S TAIWAN PLANT WHICH NOW PRODUCES COLOR AS WELL AS BLACK AND WHITE SETS: BECAUSE OF GROWING OUTPUT IN

BOTH TYPES OF SETS, SHIFT WILL NOT RESULT IN LOSS OF EMPLOYMENT IN TAIWAN. TAIWAN WILL NOW CONCENTRATE ON RCA'S WORLD-WIDE MARKET FOR BLACK AND WHITE SETS WHILE THE BRAZILIAN FACILITY WILL CONCENTRATE ON THE GROWING WORLD DEMAND FOR COLOR SETS. RCA OFFICIALS INDICATED THAT NO US FACILITY WILL BE CLOSED OR JOBS LOST BECAUSE OF THIS NEW FACILITY IN BRAZIL. THEY STATED THAT, IN FACT, US EMPLOYMENT MAY INCREASE OVER THE NEXT TEN YEAR PERIOD. THE COMPANY HAS NO PLANS AT PRESENT TO MODIFY A PLANT OPERATION IN MEXICO.

6. COMPANY REPRESENTATIVES EMPHASIZED THE HIGHLY COMPETITIVE NATURE OF THE ELECTRONICS INDUSTRY. THEY EXPRESSED THE JUDGMENT THAT SURVIVAL IS DEPENDENT ON HIGHLY SPECIALIZED OPERATIONS SCATTERED THROUGHOUT THE WORLD. CRIMMINS

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## Message Attributes

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